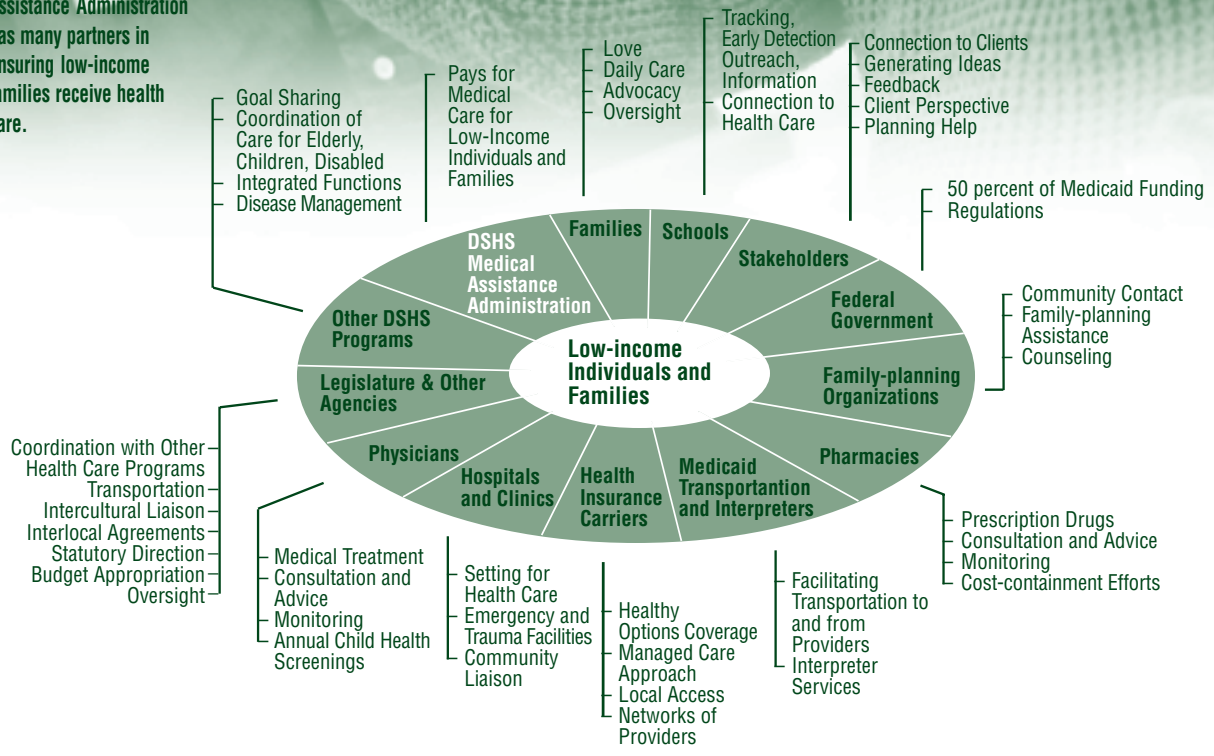
The DSHS Medical Assistance Administration has many partners in ensuring low-income families receive health care.



Access to health care:

The Medical Assistance Adminstration

In 1965, the U.S. Congress created the Medicaid program to provide health insurance for people on welfare. Over time, Medicaid has grown to include other low-income people, including seniors, people with various kinds of disabilities, children, and some low-wage working families. In the last twelve years, Medicaid enrollment in Washington has jumped from 400,000 to nearly a million people.

Today nearly one third of Washington's children - children in families with incomes up to 250 percent of the federal poverty level - are covered by Medicaid, and over 40 percent of all births in the state are paid for by Medicaid.

The Medicaid umbrella has been enlarged for several reasons:

- The cost of health insurance is rising, and fewer people can afford it;
- Fewer employers (especially in the service sector of the economy) can afford to provide health insurance for their employees;
- A growing number of older people and people with disabilities cannot afford long-term care;
- Greater awareness of the value of preventive medicine has led to federal incentives to provide health insurance for children in low- and even middle-income families.

A weaker economy with higher rates of unemployment also contributes to Medicaid enrollment growth.

The federal government pays about half of the cost of Washington's Medicaid program, but even so, the rising cost of this program is having a significant impact on our state budget. In the 2001-2003 state budget cycle, Medicaid expenses total $5.9 billion - a full 14 percent of the state budget. Costs are rising by approximately $500 million per year.

Enrollment growth is not the only factor driving increased costs; the cost of medical care is also rising far faster than the rate of inflation.

Several factors combine to push medical costs up:

- Prescription drugs are the largest component of rising medical costs. The state now spends more than $1 billion on prescription drugs for the Medicaid program each biennium.
- Advances in research lead to more high-tech treatments, and treatments for diseases that used to be untreatable.
- People live longer, and use more medical services as they age.
- Our population includes more people with complex, often life-long medical needs than ever before.
- Better emergency care means more people survive serious accidents that leave them with disabilities requiring long-term care.

The combination of these factors has caused financial problems for Medicaid programs all across the country.

Residents Receiving DSHS Services: SFY 2000

DSHS Services by Program	Total Clients
Medical Assistance Administration	**1,021,930**
Medical Eligible - Not T19*	63,785
Medical Eligible - T19*	969,370
Miscellaneous	1,720

**T19 = Federal Funds Title 19*

Source: The DSHS Client Data Base, Research and Data Analysis FY 2000

The division of responsibility between states and the federal government

Federal law requires states to provide Medicaid coverage to certain categories of people:

- People in WorkFirst, the state's employment program for parents, and in the Temporary Assistance to Needy Families program;
- Children under the age of six whose family income is at or below 133 percent of the federal poverty level;
- Children ages 7 - 18 in families with incomes at or below 100 percent of the federal poverty level;
- Pregnant women and infants whose income is below 133 percent of the federal poverty level;
- People who have disabilities and who receive Supplemental Security Income payments;
- Children and teens who are in foster care or receiving adoption services;
- Specific categories of low-income people on Medicare, including some people with disabilities who need help to pay for Medicare Part B premiums.

In addition to these groups, state legislatures can choose to extend Medicaid coverage to people at higher income levels. Washington has been in the forefront of states that have done so. Since 1989, Washington has covered pregnant women and infants with family incomes up to 185 percent of the federal poverty level. In 1994, the state moved eligibility guidelines for children to 200 percent of the federal poverty level. A few years later, a federal Medicaid expansion gave states the option of raising the eligibility standard to cover children in families with incomes up to 250 percent of the federal poverty level. Washington state opted to participate in this program, which is called the State Children's Health Insurance Program, or SCHIP.

Once a state raises income eligibility for Medicaid beyond what's federally required, there are federal disincentives to reduce them again. For instance, Washington covers pregnant women and infants who have incomes up to 185 percent of the federal poverty level. The federal requirement is 133 percent of the poverty level. Since we've raised our standard, it would require federal approval to reduce it again - and getting federal approval would require going through a complex and lengthy process.

The federal government also establishes minimum standards for what medical services Medicaid clients must receive.

Federal law makes it difficult for states to charge people on Medicaid copayments when they go to the doctor, or to charge them any share of the premium cost of Medicaid coverage. (The single exception to this rule is the Children's Health Insurance Program, which covers children in families with incomes between 200 percent and 250 percent of the federal poverty level.) Even in situations where states are allowed to charge co-pays, doctors and other providers are not allowed to turn people away when they refuse to pay them.

State governments are responsible for:

- Establishing eligibility standards for optional programs that exceed federal requirements;
- Deciding what services will be covered beyond the federal minimum;
- Setting rates that will be paid to doctors, dentists, hospitals, nursing homes, and other providers; and
- Administering the program - that is, receiving and paying all the bills, creating and monitoring contracts for managed care programs, assuring quality care, providing customer services, developing state policies and rules, preventing and punishing fraud, recovering costs when people have other health insurance, and collecting and analyzing data about costs, utilization, and other issues.

Eligibility for medical assistance

Most people who receive Medicaid qualify by virtue of being low income. But since different programs require different levels of income to qualify, Medicaid eligibility gets very complicated. And although simplifying eligibility sounds like a good idea, it would be hard to do without either cutting off people who are now eligible, or making more people eligible, and thus creating a heavier burden for state and federal budgets.

There are also numerous quirks that complicate eligibility rules. For instance, although pregnant women in Washington must have incomes at or below 185 percent of the federal poverty level, our state considers a pregnant woman a household of two - thus raising the effective income standard to 205 percent of the poverty level.

For some groups of people, the income standards for eligibility are extremely low. For people the federal government classifies as "aged, blind or disabled," the standard is approximately 80 percent of the poverty level. But many middle-class people spend down their assets in the last few years of their lives, and eventually qualify for Medicaid-paid long-term care.

People with certain kinds of developmental disabilities are automatically eligible for Medicaid, regardless of their income.

Generally speaking, Medicaid favors families with children, and many childless adults with incomes below the federal poverty level are not eligible.

Medicaid benefits are a part of the picture for the vast majority of people who receive publicly funded human services. Thus, people can sign up for Medicaid at any DSHS Community Services Office, online at DSHS's Web site, by mail or fax, or by calling a toll-free hotline at 1-800-562-3022.

Washington has also made special efforts to reach people who might be eligible for Medicaid. For instance, in fifteen school districts, the application for free or reduced children's lunches includes Medicaid information. Washington has also produced award-winning publications to encourage families to find out if they are eligible for health insurance benefits for their children.

Medicaid benefits

People in different Medicaid programs receive different benefit packages. The largest Medicaid program (called the Categorically Needy Program) provides coverage that is more comprehensive than many private insurance plans, and more comprehensive than the state's Basic Health Plan. Medicaid offers some benefits that other health insurance plans don't - such as interpreter services and transportation - because they are essential to people who would otherwise not be able to get to a doctor, or to have a conversation with one.

Dean Sherry's community helped him win his fight for life.

Photo courtesy Ballard High School

Last year Ballard High School student Dean Sherry was fighting for his life against leukemia. This year he was cancer-free and able to play basketball for his team, according to the *The Seattle Times*. Medicaid, administered by the Washington State Department of Social and Health Services, paid most of his medical bills, helped by a school dance-auction that raised another $15,000.

Read more about Sherry on Facing the Future Profiles, located on the Internet at: http://www.wa.gov/dshs/FacingtheFuture/NewsProfiles

Unlike other insurance programs - including the state's Basic Health Plan - Medicaid covers pre-existing conditions from the moment of enrollment, without any waiting period.

Dental care is limited to preventive care for babies and young children (in some parts of the state), cleaning, x-rays, fillings, extractions, and dentures. There is no coverage for orthodontia (braces) for children unless they have an extremely severe condition such as a cleft palate. Nor do people on Medicaid have coverage for bridges, implants, crowns, or other measures to replace lost teeth.

There are also categories of Medicaid coverage that provide care only for specific services, such as maternity services or drug and alcohol treatment.

Medicaid also pays for case management services for some groups of people (such as pregnant women).

About one-third of Medicaid clients are in managed care plans; the balance receive traditional, fee-for-service care. Washington's program of managed care for Medicaid clients is known as Healthy Options, and is provided to families with children. Managed care is available in every county except Asotin. In some counties, clients may choose between several managed care plans. In other counties, where there is only one managed care plan available, clients may choose between managed care and traditional fee-for-service coverage.

Molina Healthcare of Washington, Inc.

Services: Offers Healthy Options (Medicaid managed-care coverage), as well as Basic Health Plus and Children's Health Insurance Program.

Counties served: Adams, Benton, Chelan, Clallam, Columbia, Cowlitz, Douglas, Franklin, Garfield, Grant, Island, King, Kitsap, Lewis, Lincoln, Mason, Okanogan, Pierce, San Juan, Skagit, Snohomish, Spokane, Thurston, Walla Walla, Whatcom, Whitman and Yakima. In July 2002, Molina assumed the Washington Medicaid contract of Aetna US Healthcare of Washington, another Healthy Options plan.

Medicaid clients served: 139,362

Company background: Molina's parent is a California corporation. Molina Healthcare of Washington was incorporated here in 2000.

Employees: 139

Estimated amount of 2002 Contract: $163,000,000

Number of providers in statewide network: 70,000 (includes primary care providers, ancillary specialists, and hospitals)

Provider shortages and the barrier of distance

In some areas of the state, it's hard for anyone to find a doctor or dentist - and doubly difficult for people on Medicaid.

Managed care, which was originally intended to hold down costs, has become an important way to provide access to clients, because managed care plans guarantee that their members will have a primary care doctor and access to specialists when they need them.

But even with managed care plans in place, getting to a doctor or finding a pharmacy is often very difficult in rural areas of the state. Long distances and lack of public transportation can make access to care extremely difficult.

Shortages of doctors and dentists are also cropping up even in relatively urban areas, largely because of rising rates for malpractice insurance and economic instability in the health care market.

Medicaid reimbursement rates

Medicaid usually pays doctors, dentists, hospitals and other providers less than private insurance, and less than Medicare. For many services, Medicaid rates are 40 percent to 60

percent of what private insurance pays. (They are somewhat higher for some other services, such as care for children.)

Recently, as private insurance companies have begun to tighten down their payment levels, providers have been much more sensitive to the level of Medicaid and Medicare reimbursements. Some have refused to care for people on Medicaid, and others limit the number of Medicaid and Medicare patients they will treat. There is no law requiring providers to accept these patients.

Hospitals are a different matter. Federal law requires hospitals to provide care, and some hospitals end up with a disproportionate share of Medicaid clients and people with no resources and no insurance. To keep these hospitals solvent, Medicaid pays them an extra assessment based on the number of these patients they treat. Without this extra funding, some hospitals would not be able to stay in business.

State-funded medical programs

Washington also provides medical care to certain groups of people who are not eligible for Medicaid, and these programs are paid for by state funds.

The state's most important state-paid program is the Basic Health Plan, which provides subsidized health insurance to low- and middle-income people. This program provides a somewhat smaller benefit package than Medicaid. Participants pay a share of the cost based on their income. The Basic Health Plan is administered by the Washington Health Care Authority, which is separate from DSHS.

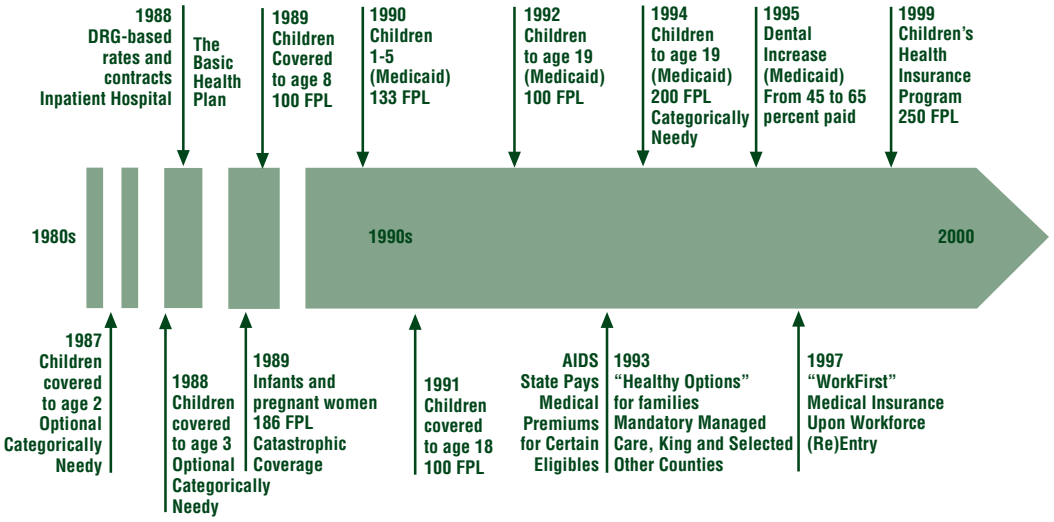
In 2002, the Legislature opened enrollment in the Basic Health Plan to some 28,000 legal immigrants and undocumented children whose state-funded medical assistance programs under MAA were being phased out.

Some state-paid medical care services are also provided to people who are incapacitated and who qualify for the General Assistance program, and to those who are participating in drug or alcohol treatment.

The state also pays for emergency hospital care for indigent people.

Washington takes the lead in health care

Washington state's progressive approach to health care during the 1990s meant increased coverage for vulnerable populations. But these new programs added to the crunch between rising health care costs and the state's lowered revenue expectations in recent years.



Medicaid and long-term care

For people with disabilities and the elderly, Medicaid provides long-term care in many forms and for people with many different needs.

Originally, Medicaid paid for care in institutions - in nursing homes, state mental hospitals, and state institutions for people with developmental disabilities. But over the last three decades, there has been a growing movement toward providing care in people's homes, and in more home-like community settings. This is what most people want - and it's usually less expensive.

To pay for care in people's homes and in the community, Washington has a federal waiver - an exception to the rules - that allows the elderly and people with disabilities to choose between home care and nursing home or institutional care, and to use Medicaid funds to pay for both.

Long-term care benefits go beyond what many think of as strictly "medical." They include personal care for people who need help with activities of daily living such as eating, toileting, bathing, and ambulation, and may also include help with ordinary chores such as cooking, cleaning, and doing laundry. This care is provided not by medical professionals, but by home care workers.

Medicaid long-term care services are similar in scope and nature to those provided by private long-term care insurance. However, the comparison is academic, since only about one percent of Washington state's people have long-term care insurance.

Long-term care is one of the biggest cost drivers in the Medicaid program.

Challenges to the Medicaid Program

Confronting rising costs

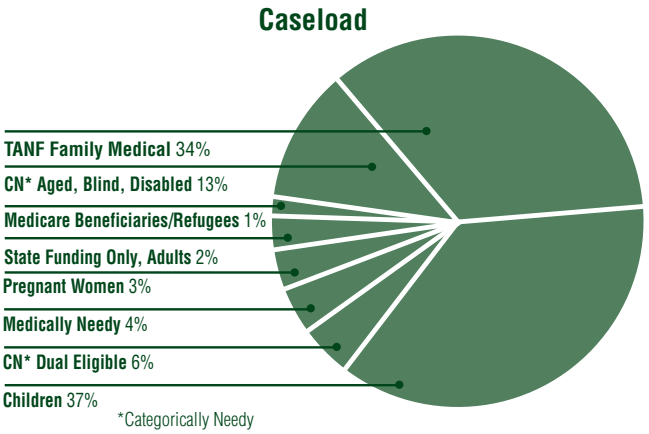
The Medical Assistance Administration is engaged in a multi-faceted initiative to control rising medical costs. One of the most important components of this initiative is the Utilization and Cost Control Initiative (UCCI), which was mandated by the state Legislature. UCCI is expected to save at least $50 million during the 2001-2003 budget cycle.

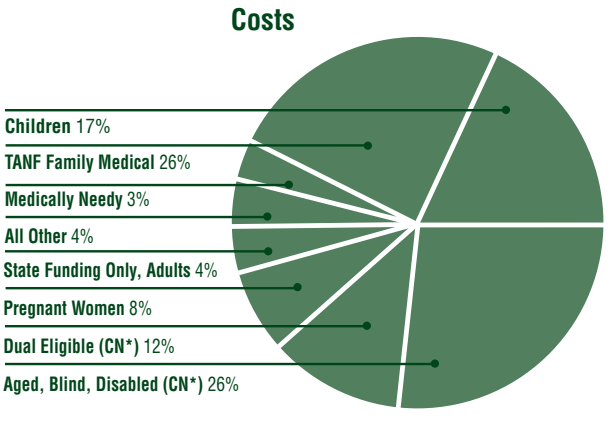
UCCI saves money by:

- Making sure that when clients have other forms of insurance, those policies are tapped to pay for services;
- Promoting family planning services to reduce the number of unintended pregnancies among Medicaid beneficiaries;

Children and youth are Medicaid's biggest enrollment category

As the Medicaid saying goes, "More than half of our clients aren't working and furthermore, they aren't even looking for a job. That's because they're children!" Children and youth, including families on TANF, are the biggest enrollment categories for Medicaid, but much of their treatment is preventive, which means they account for a relatively small share of health-care costs. Aged, blind and disabled clients, by comparison, are much more expensive.





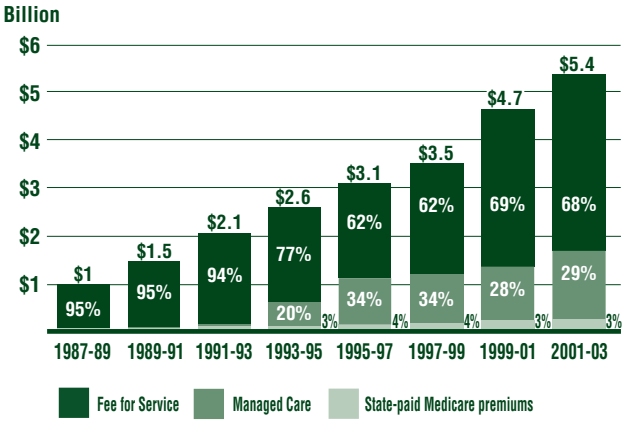
- Aggressively managing the use of medical services to make sure that the state is not over-billed, or billed for unnecessary treatments;
- Promoting the use of generic drugs rather than more expensive brand-name medications, and ensuring that doctors know when their patients are taking drugs prescribed by other doctors.

The Medical Assistance Administration is also working on an Electronic Claims Submission (ECS) initiative to encourage more doctors and dentists to reduce paperwork by sending bills to the state electronically. Currently 85 percent of billing is done electronically. The cost of processing electronic claims can be measured in pennies; each paper claim costs the state a dollar or more to process. Providers who join the ECS project also benefit from reduced paperwork and quicker payments. Medicaid also constantly screens provider billings, both before and after payments, to make sure the claims are reasonable and proper.

To further reduce costs, DSHS has asked the federal government for a waiver that would give the state more flexibility in dealing with rising costs and strained budgets. If approved, the waiver would allow the state legislature to make decisions about freezing enrollment; requiring higher-income clients to share costs; creating incentives for using less-expensive prescription drugs; and changing benefit packages.

Medicaid must look beyond managed care

Managed care's influence over costs waned in the late 1990s, and Medicaid now is looking at other delivery systems, such as Disease Management or Primary Care Case Management, in its efforts to control costs and keep its treatments cost effective.



Addressing unmet needs

Overall, 87 percent of Washington residents have health insurance, compared to 86 percent nationally. About 7.7 percent of Washington's children lack health insurance. Washington has an admirable record of extending Medicaid coverage substantially beyond the federal minimums of eligibility and benefits. Our state-funded Basic Health Plan provides subsidized health insurance for an additional 125,000 people who don't qualify for Medicaid.

Still, thousands of children remain uninsured, even though some of them qualify for Medicaid. Up to a third of young adults may be uninsured, and unconvinced of the need for health insurance at that seemingly immortal stage of their lives. There are many elders who

Ferry County Public Health Hospital, Republic

Service: Nonprofit health care for residents of Ferry County

Communities served: Republic, Curlew, Malo, Ferry, Danville, Boyds, Orient, Inchelium, Keller

Medicaid clients served: 87 admissions out of 359 total; 1,536 outpatient visits out of 6,126 total

Total Medicaid claims: $398,426

Uncompensated charity care: $37,480

Employees: 67.5

can't afford prescription drugs, but who still have incomes above the level required for Medicaid. There are middle-income working people whose jobs don't include health insurance benefits, and small business owners and self-employed people who have trouble finding affordable individual or small group health insurance plans. And there are people who have Medicaid benefits, but can't find doctors or dentists who will serve them.

Making tough, budget-driven policy choices

Today we confront a major challenge: how to sustain the level of access to medical care that Washington state has achieved.

In the past, Medicaid seemed like a bargain to state policymakers, because half or more of its costs were paid by the federal government. We worked at making more services Medicaid-eligible, because doing so made them affordable for the state.

But in the last few years, rising medical costs have completely undercut that logic. Today, the need for Medicaid services - and the cost of those services - is growing faster than the state budget. And when the baby boom generation retires and begins to tap into Medicaid for expensive long-term care, the growth in Medicaid expenses will skyrocket.

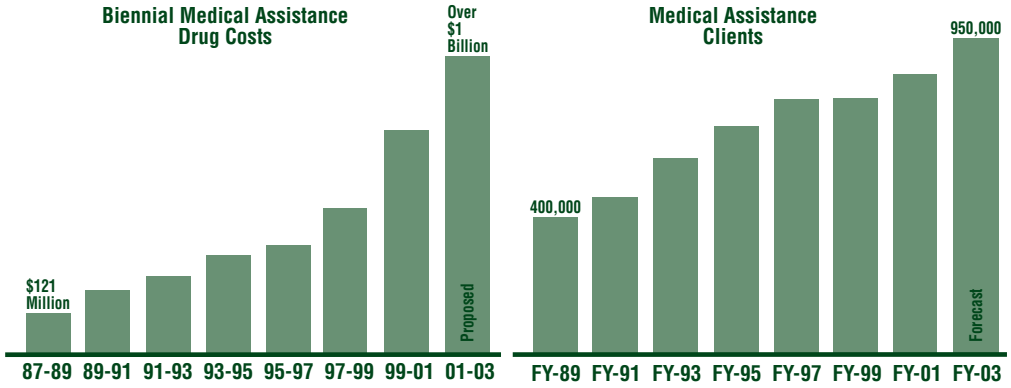
Even now, Medicaid cost increases are nearing 10 percent per year — far above the rate of inflation in the rest of the economy. The cost of some components of Medicaid are growing even faster. Medicaid drug spending is growing at more than 18 percent per year all across the country.

The state budget cannot support cost increases of half a billion dollars a year. Nor can state lawmakers or program officials reverse the national trend of rising medical costs.

In this environment, finding and implementing measures to save money and promote efficiency are vital. So are measures that stretch state resources by requiring those at the higher levels of income eligibility to participate in paying for the cost of care. Such actions are our only defense against jeopardizing the vulnerable populations that rely on Medicaid and other state medical programs.

Health-care cost drivers push up Medicaid expenditures

While some of Medicaid's increasing expenditures have been fueled by enrollment growth, cost drivers like prescription drugs and the aging Washington State population have forced dramatic increases in health-care costs during the last decade.



The Medicaid program provides services to low-income people, including seniors, people with various kinds of disabilities, children, and some low-wage working families. Today, nearly one-third of Washington's children are covered by Medicaid, and over 40 percent of all births are paid for by Medicaid.

Photo courtesy of Della Jordan